

OHIO COUNTY
SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2005

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District
Hartford, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Ohio County School District** (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the

927 College Street ♦ PO Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 ♦ Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 ♦ Fax: (270) 726-3155
1-888-240-7151

District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 20, 2005 on our consideration of **Ohio County School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 17 and 59 through 62 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Ohio County School District's** basic financial statements. The combining and individual nonmajor fund financial statements and other additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the **Ohio County School District**. The combining and individual nonmajor fund financial statements, other additional information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bowling Green, Kentucky
September 20, 2005

Holland CPAs, PSC

Required Supplementary Information

Management's Discussion and Analysis



**OHIO COUNTY PUBLIC SCHOOL DISTRICT
HARTFORD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)
YEAR ENDED JUNE 30, 2005**

As management of the Ohio County Public School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

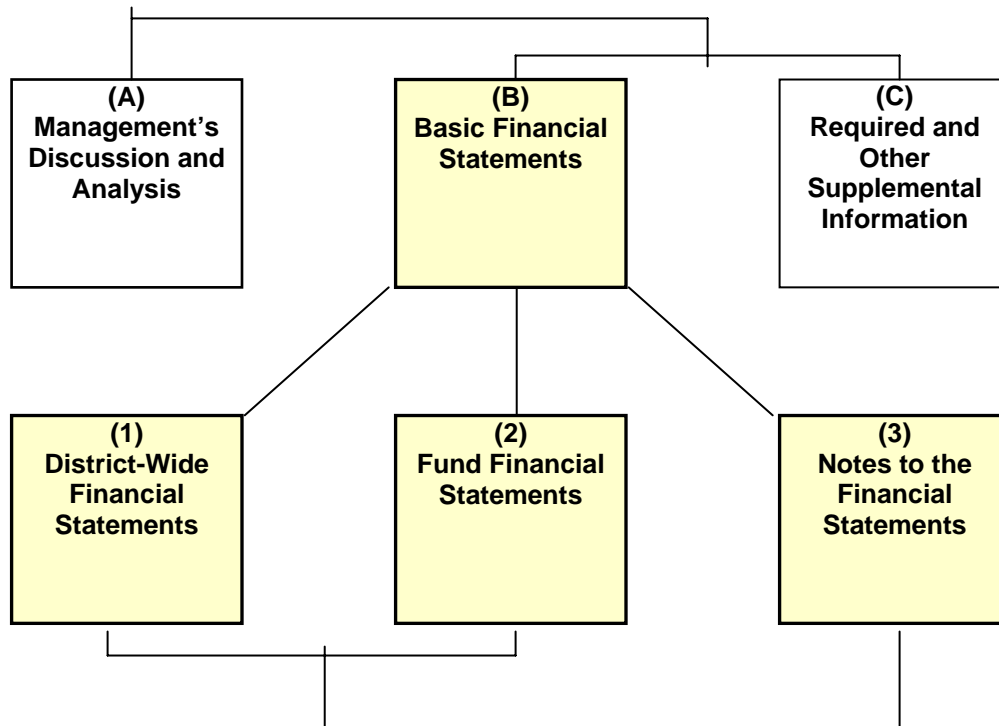
FINANCIAL HIGHLIGHTS

- The beginning General Fund fund balance for the District was \$7,066,912. The ending General Fund fund balance was \$6,639,596. A major reason for the decrease of \$427,316 in the fund balance was that the General Fund expended approximately \$476,000 for a combined building project at Horse Branch Elementary and Beaver Dam Elementary schools, which the District subsequently decided the project was not feasible.
- An additional trust agreement was created during February 2005 with a contribution of \$2.4 million. Upon the income beneficiaries' death, the District's senior students benefit from post secondary scholarships from the revenue generated from the trust.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Ohio County Public School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section), (B) the basic financial statements and notes, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the District as a Whole

One of the most important questions asked about the District is "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky's SEEK funding formula and its adjustments, the District's property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's food service is reported as business activities. These activities are funded thru fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$28,143,610 as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that is still outstanding (\$20,309,322). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the District's major funds follows. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts

for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are assets that belong to others. The school activity funds and private purpose trust funds are reported as fiduciary funds. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Ohio County Public School District are the general fund, special revenue (grants), and FSPK Building Fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The District's school food service operation, school wide day care operation, school auditorium, high school day care operation, and the community education operation are within the proprietary business-type activities.

Fiduciary Funds – Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. The schools' activity funds (or agency funds) balance at year-end totaled \$219,834. The Districts' private purpose trust net assets at year-end totaled \$4,850,797.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

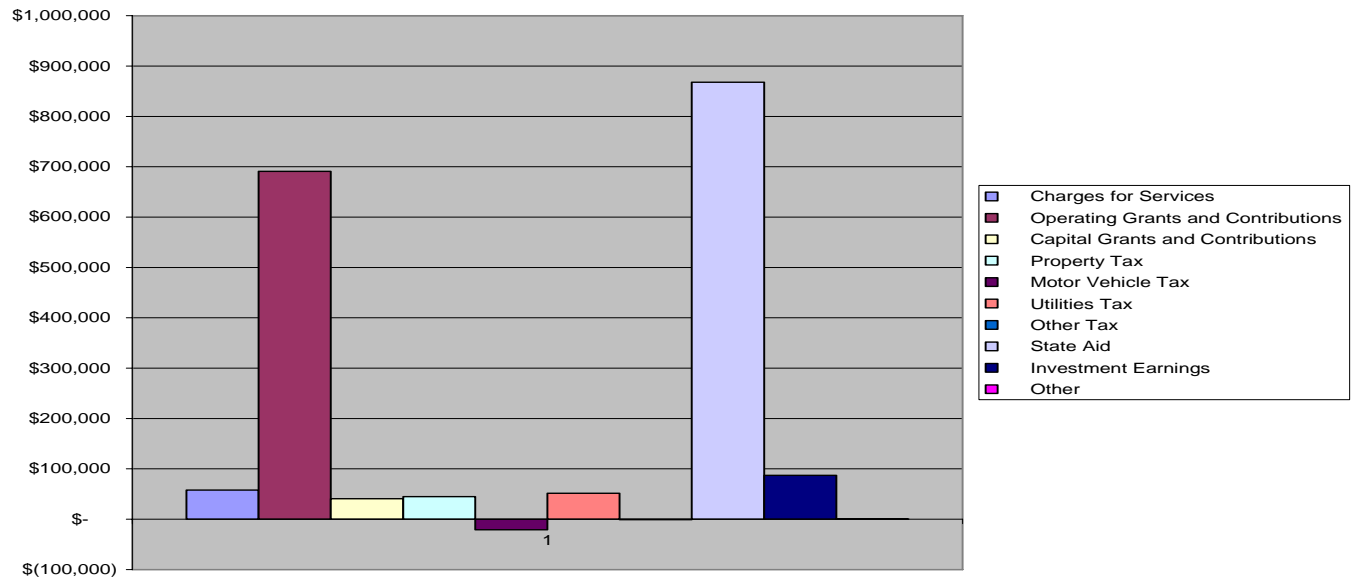
Net Assets

	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Change</u>
Assets			
Current and Other Assets	\$ 10,216,604	\$ 10,059,937	(156,667)
Capital Assets	38,824,865	38,171,169	(653,696)
Total Assets	\$ 49,041,469	\$ 48,231,106	(810,363)
Liabilities			
Long Term Liabilities	\$ 18,371,006	\$ 18,799,778	428,772
Other Liabilities (current)	2,585,466	1,287,718	(1,297,748)
Total Liabilities	\$ 20,956,472	\$ 20,087,496	(868,976)
Net Assets			
Investment in capital assets (net of debt)	\$ 20,037,006	\$ 20,309,322	272,316
Restricted	954,899	772,000	(182,899)
Unrestricted	7,093,092	7,062,288	(30,804)
Total Net Assets	\$ 28,084,997	\$ 28,143,610	58,613

Revenues

	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for Services	\$ 803,625	\$ 861,706	\$ 58,081
Operating Grants and Contributions	5,598,851	6,289,616	690,765
Capital Grants and Contributions	1,628,694	1,669,498	40,804
			-
General Revenues:			
Property Tax	2,873,548	2,918,495	44,947
Motor Vehicle Tax	536,551	515,864	(20,687)
Utilities Tax	929,735	981,314	51,579
Other Tax	66,057	64,971	(1,086)
State Aid	19,075,371	19,943,126	867,755
Investment Earnings	152,751	240,070	87,319
Other	6,748	7,088	340
Transfers	-	-	-
Total Revenues	\$ 31,671,931	\$ 33,491,748	\$ 1,819,817

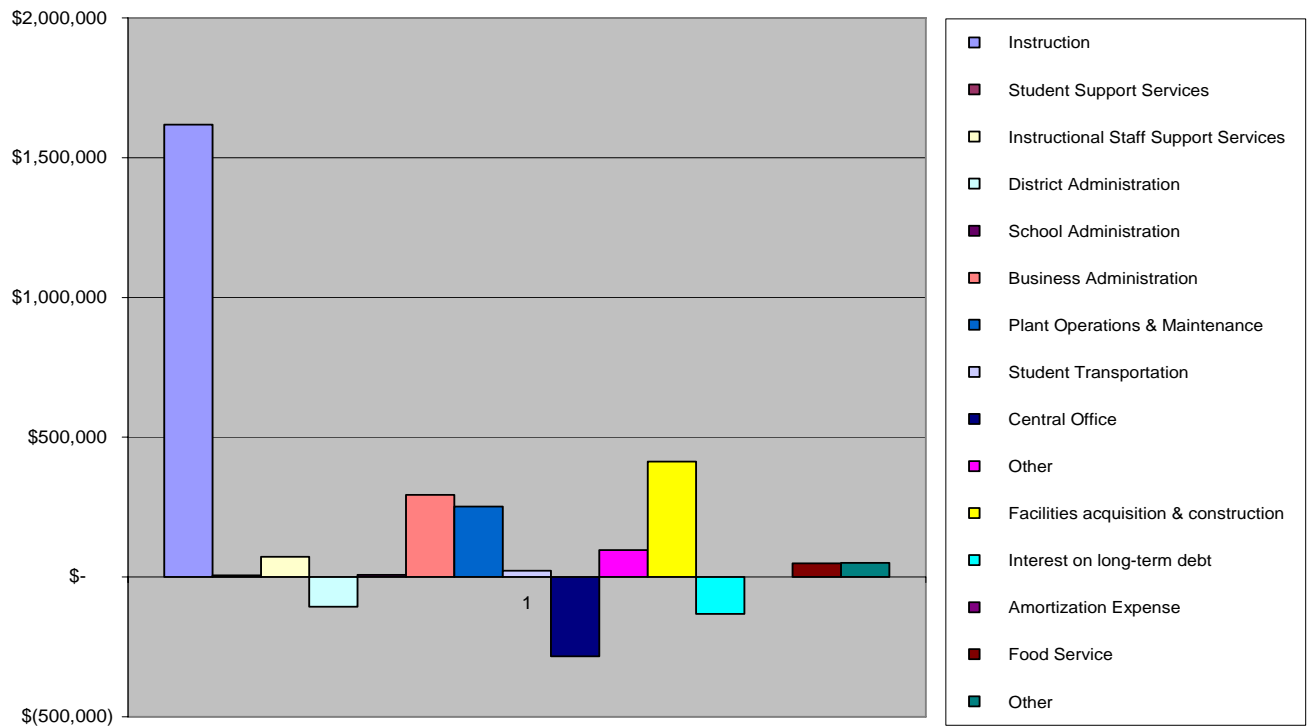
Revenue Variances



Expenses

	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Change</u>
Instruction	\$ 16,961,393	\$ 18,579,686	\$ 1,618,293
Student Support Services	1,201,991	1,207,405	5,414
Instructional Staff Support Services	1,142,414	1,214,480	72,066
District Administration	853,390	747,335	(106,055)
School Administration	1,291,343	1,298,868	7,525
Business Administration	653,559	947,459	293,900
Plant Operations & Maintenance	2,417,497	2,670,133	252,636
Student Transportation	2,548,811	2,571,334	22,523
Central Office	283,937	-	(283,937)
Other	420,424	516,951	96,527
Facilities acquisition & construction	62,700	475,981	413,281
Interest on long-term debt	1,017,501	886,009	(131,492)
Amortization Expense	4,869	5,275	406
Food Service	2,086,977	2,135,640	48,663
Other	126,003	176,579	50,576
Total Expenses	\$ 31,072,809	\$ 33,433,135	\$ 2,360,326

Expense Variance

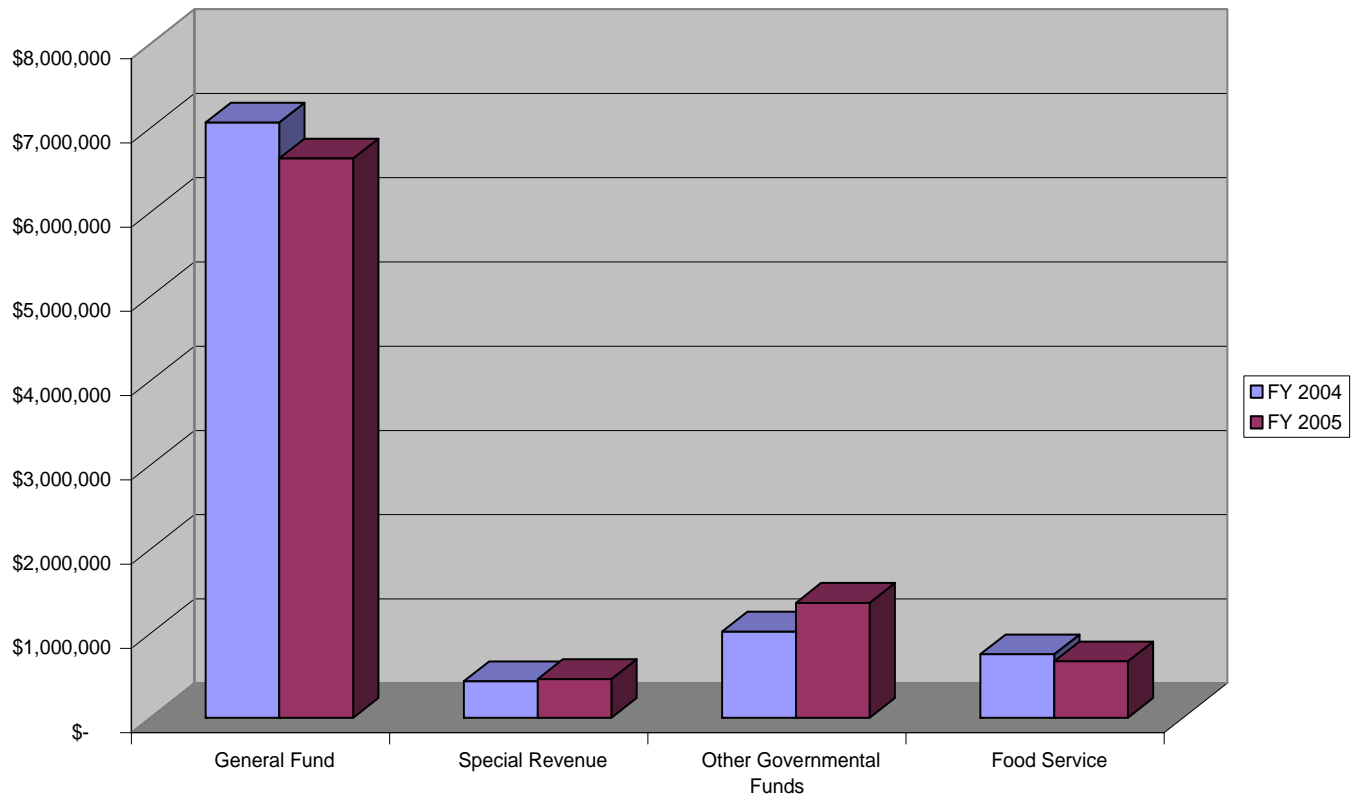


- The District's total revenues were \$33,491,748 and the total expenses were \$33,433,135. Revenues exceeded expenses by \$58,613.
- State revenues accounted for 59% and local taxes accounted for 14% of the revenue.
- Instruction was the major expense category and accounted for 55% of the total.
- Food service expenses exceeded revenues by \$82,880.

Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances	FY 2004	FY 2005	Amount of Change	Percent of Change
General Fund	\$ 7,066,912	\$ 6,639,596	\$ (427,316)	-6%
Special Revenue	\$ 434,364	\$ 460,430	\$ 26,066	6%
Other Governmental Funds	\$ 1,024,701	\$ 1,363,772	\$ 339,071	33%
Food Service	\$ 753,527	\$ 670,647	\$ (82,880)	-11%

Changes in End-of-Year Fund Balances



- The General Fund's fund balance showed a negative change of \$427,316. This was primarily the result of the General Fund expending approximately \$476,000 for a combined building project at Horse Branch Elementary and Beaver Dam Elementary schools, which the District subsequently decided the project was not feasible.
- The Special Revenue fund had a negative change of \$26,066. The principal reason for the difference is increase in expenditure for technology funds.
- Within Other Governmental Funds, a major component of the \$339,071 increase was that no additional construction was started during the fiscal year.
- The Food Service Fund's balance showed an \$82,880 decrease. The fund has experienced two consecutive years with an operating loss and the increase of state and federal non-operating revenues of approximately \$400,000 resulted in a reduction in the amount of loss.

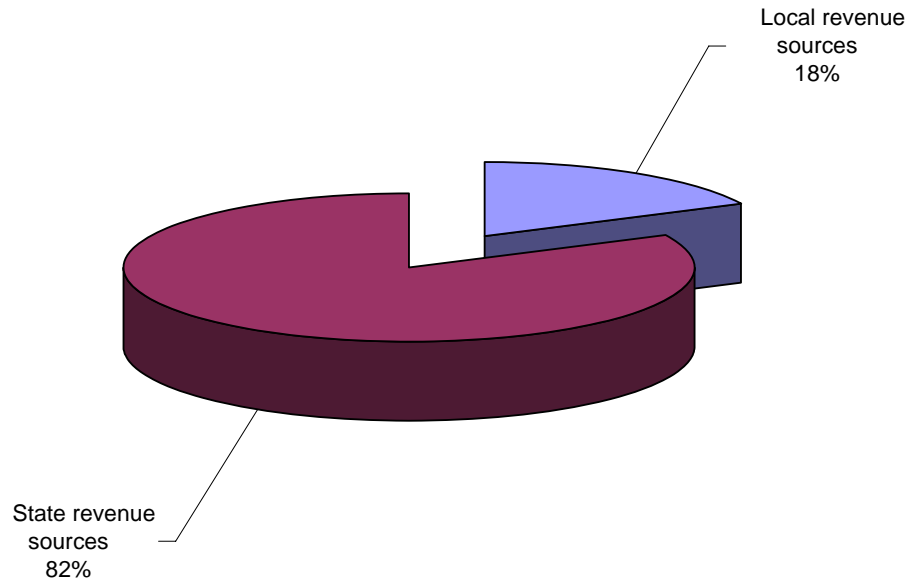
Comments on General Fund Budget Comparisons

- The District budgeted for its local revenues (taxes, earned interest, and tuition) in a conservative manner. Thus, local revenues were slightly higher than budgeted (\$459,433).
- Expenditures were less than budgeted primarily because of unspent contingency funds and facilities expenditures.
- General Fund budget compared to actual revenue varied from line item to line item with the ending actual fund balance being \$427,316 less than the prior year.
- District administration shows a \$1,642,635 favorable variance. The reason is because this is where the district's contingency is budgeted. The contingency is not meant to be expended, but is to be used as the district's beginning balance for next year. The contingency budgeted was actually \$1,371,388.

The following tables present a summary of revenues and expenditures of the General Fund for the fiscal year ended June 30, 2005.

Revenues	Amount	
Local revenue sources	\$	4,291,586
Property Tax	2,546,202	
Motor Vehicle Tax	467,210	
Utilities Tax	981,314	
Other	64,971	
Tuition and fees	24,972	
Investment earnings	200,587	
Other local revenue	6,330	
State revenue sources		19,943,126
Total Revenues	\$	24,234,712

General Fund Revenue Sources

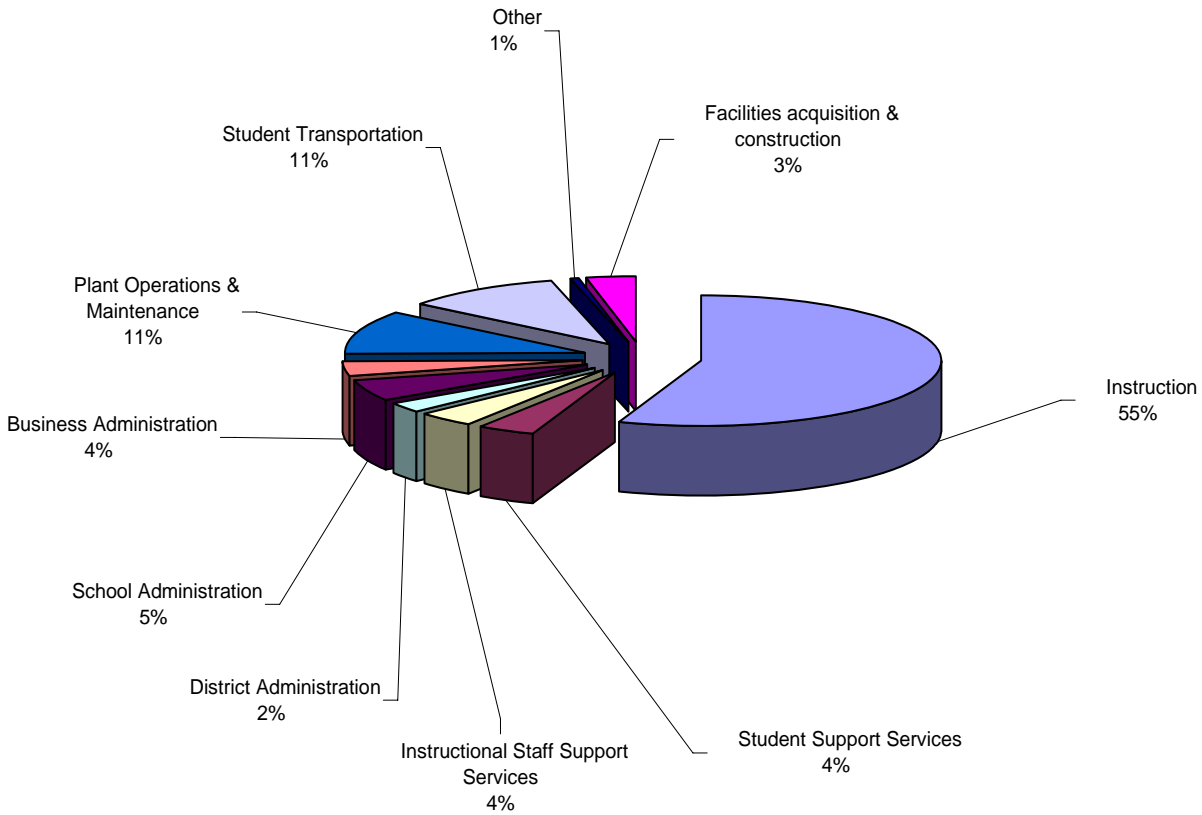


The majority of revenue was derived from state funding 82% with local revenue sources making up 18% of total revenue.

Expenditures

		FY 2005
Instruction	\$	13,598,732
Student Support Services		1,001,303
Instructional Staff Support Services		931,876
District Administration		604,027
School Administration		1,318,559
Business Administration		884,280
Plant Operations & Maintenance		2,624,565
Student Transportation		2,618,432
Other		144,242
Facilities acquisition & construction		787,436
Total Expenditures	\$	24,513,452

General Fund Expenditures



CAPITAL ASSET AND DEBT ADMINISTRATION

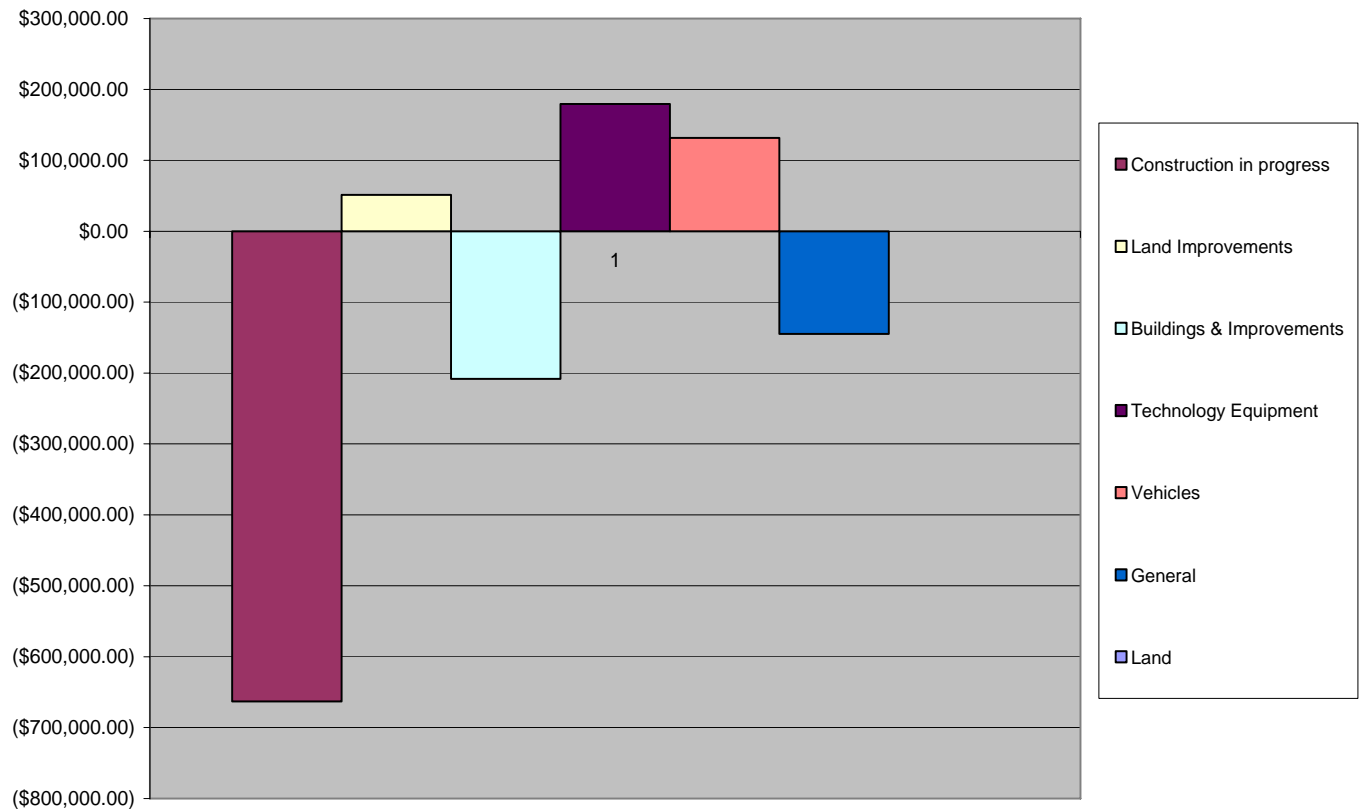
Capital Assets

By June 30, 2005, the district had invested \$38,171,169 in capital assets, net of accumulated depreciation. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total of assets was \$62,282,816 with accumulated depreciation of \$24,111,647.

SUMMARY OF CAPITAL ASSETS

	June 30, 2004	June 30, 2005	Change
Assets			
Land	\$400,873	\$400,873	\$0.00
Construction in progress	\$662,939	\$0	(\$662,939.00)
Land Improvements	\$1,202,328	\$1,253,615	\$51,287.00
Buildings & Improvements	\$33,742,285	\$33,534,070	(\$208,215.00)
Technology Equipment	\$451,362	\$630,765	\$179,403.00
Vehicles	\$1,488,692	\$1,620,280	\$131,588.00
General	\$876,386	\$731,566	(\$144,820.00)
Total Assets	\$38,824,865	\$38,171,169	(\$653,696.00)

Capital Assets Variance

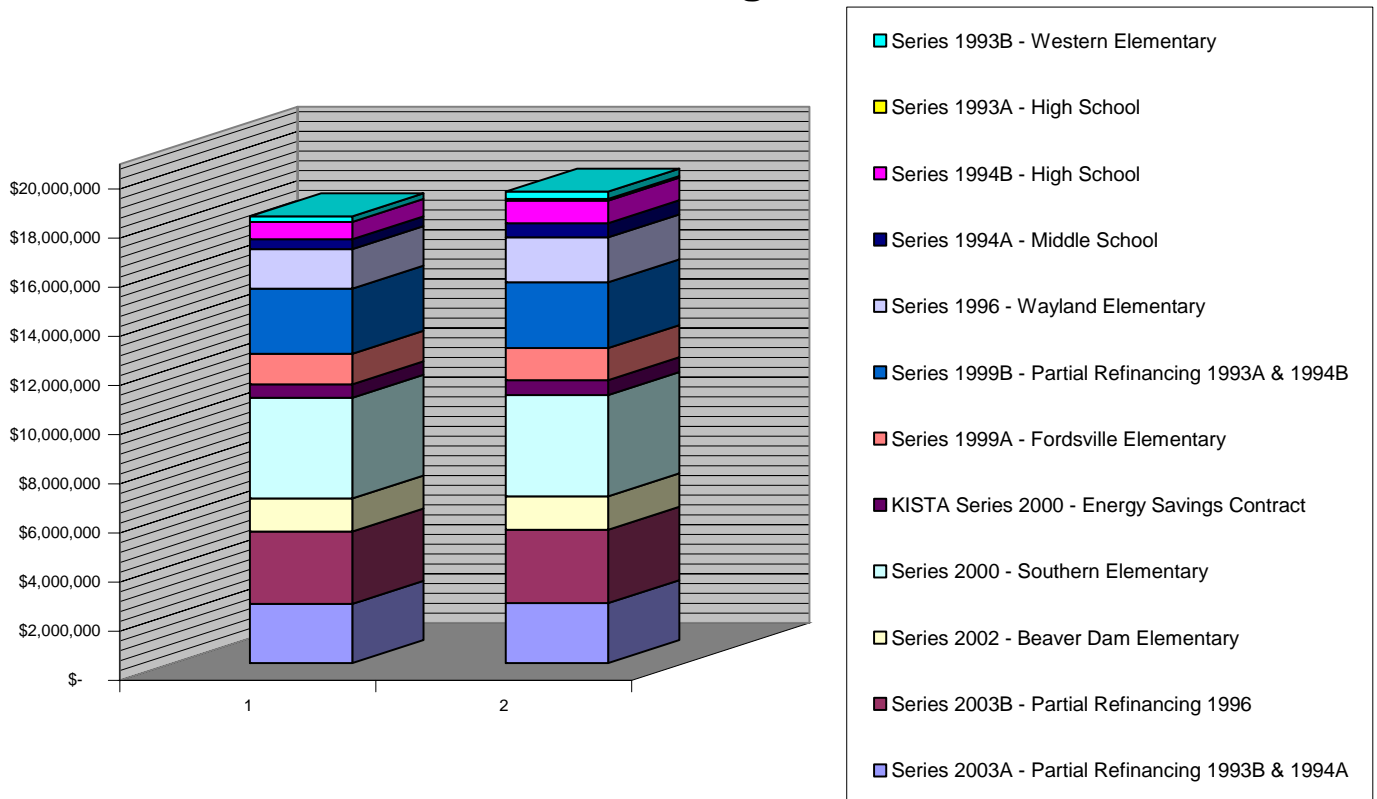


Long-Term Debt

At year-end the district had \$18.1 million in general obligation bonds outstanding. The net decrease of general obligation bonds was \$1,008,000. This net decrease was due to the current fiscal year principal payments totaling \$1,008,000.

General Obligation Bonds		FY 2005		FY 2004	
Series 2003A - Partial Refinancing 1993B & 1994A	\$	2,415,000	\$	2,445,000	
Series 2003B - Partial Refinancing 1996	\$	2,945,000	\$	2,985,000	
Series 2002 - Beaver Dam Elementary	\$	1,340,000	\$	1,355,000	
Series 2000 - Southern Elementary	\$	4,095,000	\$	4,125,000	
KISTA Series 2000 - Energy Savings Contract	\$	553,000	\$	601,000	
Series 1999A - Fordsville Elementary	\$	1,245,000	\$	1,310,000	
Series 1999B - Partial Refinancing 1993A & 1994B	\$	2,645,000	\$	2,670,000	
Series 1996 - Wayland Elementary	\$	1,610,000	\$	1,830,000	
Series 1994A - Middle School	\$	400,000	\$	585,000	
Series 1994B - High School	\$	700,000	\$	910,000	
Series 1993A - High School	\$	-	\$	70,000	
Series 1993B - Western Elementary	\$	230,000	\$	300,000	
Total	\$	18,178,000	\$	19,186,000	

Outstanding Debt



BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The District receives approximate 60% of its new general fund revenue each year through the state funding formula (SEEK).

The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The District should always be prepared for such reductions in funding.

Approximately 14 % of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year.

By law the budget must have a minimum 2 % contingency. The District adopted a budget with \$1,371,388 in contingency (4.2%). The beginning fund balance for beginning the fiscal year is \$7,066,912. Significant Board action that impacts the finances include a 2% pay raise for all employees, a mid-year 1% pay raise for all employees, spending toward the Reading Recovery Program and general fund matching dollars for other grants. The District currently participates in forty-eight federal and state grants. The total budget for these grants is \$4,219,447. Many of these

grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. The District must continue to monitor the grants constantly and get reimbursements in a timely manner. The District must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for Ohio County Public Schools are to continue to reach the academic accountability goal of 100% proficient by the year 2014, continue to maintain our modern facilities, and to maintain the average daily attendance count.

The District's challenge to reach the academic accountability goal established by the Commonwealth of Kentucky will be accomplished by several means. The primary goal is to maintain our competitive salary schedules to help attract quality leadership, teachers and support staff. The District also needs to continue to maintain our pupil/teacher ratio at levels below the levels recommended by the state. Maintaining several programs will also help the District overcome this challenge. These programs include, but are not limited to, Reading Recovery, full day kindergarten and advancement in the area of technology.

The second challenge mentioned above is to maintain our modern facilities. The District makes an annual major financial commitment in order to maintain our current facilities. Each year the District transfers \$400,000 of the General Fund revenues to a restricted construction account within the General Fund. This restricted account will help the District recovery from any unforeseen major facility repairs, help keep the current facilities in excellent condition and construct any required facilities which are not large enough to require a bond sale.

The third challenge mentioned above is preserving the average daily attendance count. The district receives funding through the SEEK formula based on this count. It is vital that our schools have high attendance percentages and that parents and students continue to choose Ohio County Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing this district challenge.

Questions regarding this report should be directed to Mr. Brian L. Decker, Chief Financial Officer, located at 315 East Union Street, Hartford, KY 42347, by phone at 270.298.3249 extension # 249, or e-mail at bdecker@ohio.k12.ky.us.

Basic Financial Statements

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 6,668,528	\$ 276,549	\$ 6,945,077
Investments	2,152,370	0	2,152,370
Accounts receivable:			
Taxes.....	171,206	0	171,206
Accounts.....	2,778	0	2,778
Intergovernmental	595,136	76,996	672,132
Inventory	0	73,078	73,078
Bond issuance costs.....	53,440	0	53,440
Less: accumulated amortization	(10,144)	0	(10,144)
Nondepreciated capital assets.....	400,873	0	400,873
Depreciable capital assets	60,906,217	975,726	61,881,943
Less: accumulated depreciation	(23,421,925)	(689,722)	(24,111,647)
TOTAL ASSETS	47,518,479	712,627	48,231,106
LIABILITIES			
Accounts payable	646,747	484	647,231
Accrued liabilities	79,116	0	79,116
Deferred revenue.....	400,357	0	400,357
Accrued interest.....	161,014	0	161,014
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,056,000	0	1,056,000
Other	49,167	0	49,167
Compensated absences	324,107	0	324,107
Due beyond one year:			
Outstanding bonds	16,682,469	0	16,682,469
Other	74,211	0	74,211
Compensated absences	613,824	0	613,824
TOTAL LIABILITIES	20,087,012	484	20,087,496

NET ASSETS

Invested in capital assets, net of related debt	\$ 20,023,318	\$ 286,004	\$ 20,309,322
Restricted for:			
SFCC.....	768,812	0	768,812
Debt service	3,188	0	3,188
Unrestricted	6,636,149	426,139	7,062,288
	<u> </u>	<u> </u>	<u> </u>
TOTAL NET ASSETS	<u> \$ 27,431,467 </u>	<u> \$ 712,143 </u>	<u> \$ 28,143,610 </u>

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS						
		EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL				
GOVERNMENTAL ACTIVITIES												
Instruction.....	\$	18,579,686	\$	87,335	\$	3,783,609	\$	0	\$ (14,708,742)	\$	0	\$ (14,708,742)
Support services:												
Student		1,207,405		0		206,102		0	(1,001,303)		0	(1,001,303)
Instructional staff.....		1,214,480		0		280,308		0	(934,172)		0	(934,172)
District administration.....		747,335		0		529		0	(746,806)		0	(746,806)
School administration.....		1,298,868		0		3,050		0	(1,295,818)		0	(1,295,818)
Business		947,459		0		63,179		0	(884,280)		0	(884,280)
Plant operations and maintenance		2,670,133		0		27,037		0	(2,643,096)		0	(2,643,096)
Student transportation.....		2,571,334		0		50,058		0	(2,521,276)		0	(2,521,276)
Other		516,951		0		372,709		0	(144,242)		0	(144,242)
Facilities acquisition and construction.....		475,981		0		0		993,685	517,704		0	517,704
Interest on long-term debt		886,009		0		0		675,813	(210,196)		0	(210,196)
Amortization expense.....		5,275		0		0		0	(5,275)		0	(5,275)
Loss on disposal of assets		48,519		0		0		0	(48,519)		0	(48,519)
TOTAL GOVERNMENTAL ACTIVITIES		31,169,435		87,335		4,786,581		1,669,498	(24,626,021)		0	(24,626,021)

BUSINESS-TYPE ACTIVITIES

Food services	2,135,640	651,971	1,503,035	0	0	19,366	19,366
Other	128,060	122,400	0	0	0	(5,660)	(5,660)
TOTAL BUSINESS-TYPE ACTIVITIES	2,263,700	774,371	1,503,035	0	0	13,706	13,706
TOTAL SCHOOL DISTRICT	\$ 33,433,135	\$ 861,706	\$ 6,289,616	\$ 1,669,498	(24,626,021)	13,706	(24,612,315)

GENERAL REVENUES

Taxes:

Property	2,918,495	0	2,918,495
Motor vehicle	515,864	0	515,864
Utilities	981,314	0	981,314
Unmined minerals	38,584	0	38,584
Other	26,387	0	26,387
State aid	19,943,126	0	19,943,126
Investment earnings	234,449	5,621	240,070
Other	6,330	758	7,088
Transfers	98,641	(98,641)	0

**TOTAL GENERAL REVENUES
AND TRANSFERS**

CHANGE IN NET ASSETS.....	137,169	(78,556)	58,613
NET ASSETS – BEGINNING OF YEAR.....	27,131,732	790,699	27,922,431
PRIOR PERIOD ADJUSTMENT.....	162,566	0	162,566
NET ASSETS — BEGINNING OF YEAR — RESTATED	27,294,298	790,699	28,084,997
NET ASSETS – END OF YEAR	\$ 27,431,467	\$ 712,143	\$ 28,143,610

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash	\$ 5,010,221	\$ 294,535	\$ 1,359,012	\$ 4,760	\$ 6,668,528
Investments	2,152,370	0	0	0	2,152,370
Accounts receivable:					
Taxes	171,206	0	0	0	171,206
Accounts	2,778	0	0	0	2,778
Intergovernmental	0	595,136	0	0	595,136
	\$ 7,336,575	\$ 889,671	\$ 1,359,012	\$ 4,760	\$ 9,590,018

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 617,863	\$ 28,884	\$ 0	\$ 0	\$ 646,747
Accrued liabilities	79,116	0	0	0	79,116
Deferred revenue	0	400,357	0	0	400,357
TOTAL LIABILITIES	696,979	429,241	0	0	1,126,220

FUND BALANCES

Reserved for:					
Construction	1,497,295	0	0	1,572	1,498,867
Encumbrances	174,274	203,009	0	0	377,283
SFCC.....	0	0	768,812	0	768,812
Site based carryforward.....	52,770	0	0	0	52,770
Retirement benefits	500,000	0	0	0	500,000
Tax commission	42,846	0	0	0	42,846
Debt service	0	0	0	3,188	3,188
Unreserved	4,372,411	257,421	590,200	0	5,220,032
TOTAL FUND BALANCES	6,639,596	460,430	1,359,012	4,760	8,463,798

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 7,336,575	\$ 889,671	\$ 1,359,012	\$ 4,760	\$ 9,590,018
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OHIO COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 8,463,798

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. The
cost of the assets is \$61,307,090 and the accumulated depreciation is
\$23,421,925. 37,885,165

Bond issuance costs are shown as expenditures on the fund statements.
However, they are reported as assets and amortized on the statement of net
assets. Bond issuance costs at year-end amounted to 43,296

Long-term liabilities, including bonds payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Bonds payable	(17,738,469)
Other debt	(123,378)
Accrued interest of the bonds	(161,014)
Compensated absences	(937,931)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 27,431,467

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property	\$ 2,546,202	\$ 0	\$ 372,293	\$ 0	\$ 2,918,495
Motor vehicle	467,210	0	48,654	0	515,864
Utilities	981,314	0	0	0	981,314
Unmined minerals.....	38,584	0	0	0	38,584
Other	26,387	0	0	0	26,387
Tuition and fees.....	24,972	62,363	0	0	87,335
Earnings on investments	200,587	5,692	27,503	667	234,449
Other local revenue	6,330	182,364	0	0	188,694
Intergovernmental – state	19,943,126	1,870,836	634,185	1,035,313	23,483,460
Intergovernmental – federal	0	2,733,381	0	0	2,733,381
TOTAL REVENUES	24,234,712	4,854,636	1,082,635	1,035,980	31,207,963
EXPENDITURES					
Current:					
Instruction.....	13,598,732	3,994,586	0	0	17,593,318
Support services:					
Student	1,001,303	206,102	0	0	1,207,405
Instructional staff	931,876	280,308	0	0	1,212,184
District administration	604,027	529	0	0	604,556

School administration	1,318,559	3,050	0	0	1,321,609
Business	884,280	63,179	0	0	947,459
Plant operations and maintenance	2,624,565	27,037	0	0	2,651,602
Student transportation	2,618,432	50,058	0	0	2,668,490
Other	144,242	372,709	0	0	516,951
Debt service:					
Principal	0	0	0	1,008,000	1,008,000
Interest	0	0	0	849,773	849,773
Facilities acquisition and construction	787,436	0	0	0	787,436
TOTAL EXPENDITURES	24,513,452	4,997,558	0	1,857,773	31,368,783
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(278,740)	(142,922)	1,082,635	(821,793)	(160,820)
OTHER FINANCING SOURCES (USES)					
Operating transfers	(148,576)	168,988	(742,151)	820,380	98,641
TOTAL OTHER FINANCING SOURCES (USES)	(148,576)	168,988	(742,151)	820,380	98,641
NET CHANGE IN FUND BALANCES	(427,316)	26,066	340,484	(1,413)	(62,179)
FUND BALANCES – BEGINNING OF YEAR	7,066,912	271,798	1,018,528	6,173	8,363,411
PRIOR PERIOD ADJUSTMENT	0	162,566	0	0	162,566
FUND BALANCES — BEGINNING OF YEAR — RESTATED	7,066,912	434,364	1,018,528	6,173	8,525,977
FUND BALANCES – END OF YEAR	\$ 6,639,596	\$ 460,430	\$ 1,359,012	\$ 4,760	\$ 8,463,798

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ (62,179)

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures.
However, in the statement of activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the
amount by which depreciation expense (\$1,686,111) exceeds capital
outlays (\$1,062,366) in the period. (623,745)

Gains and losses are not presented in governmental funds because they
do not provide or use current financial resources. However, they are
presented in the statement of activities. The net difference between the
proceeds from the sale of assets recorded on the fund statements and the
actual loss recognized on the district-wide statements equaled this amount
for the year. (48,519)

Repayment of bond principal and other debt is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities in the
statement of net assets. 1,055,881

Expenditures reported in the fund financial statements are recognized when
the current financial resource is used. However, expenses in the statement
of activities are recognized when they are incurred. (184,269)

CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 137,169

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
ASSETS			
CURRENT ASSETS			
Cash	\$ 239,598	\$ 36,951	\$ 276,549
Accounts receivable:			
Intergovernmental	76,996	0	76,996
Inventory	73,078	0	73,078
TOTAL CURRENT ASSETS	389,672	36,951	426,623
NONCURRENT ASSETS			
Fixed assets – net.....	281,404	4,600	286,004
TOTAL ASSETS	\$ 671,076	\$ 41,551	\$ 712,627
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 429	\$ 55	\$ 484
TOTAL CURRENT LIABILITIES	429	55	484
NET ASSETS			
Invested in capital assets.....	281,404	4,600	286,004
Unrestricted	389,243	36,896	426,139
TOTAL NET ASSETS	670,647	41,496	712,143
TOTAL LIABILITIES AND NET ASSETS	\$ 671,076	\$ 41,551	\$ 712,627

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 651,971	\$ 0	\$ 651,971
Tuition and fees	0	122,400	122,400
TOTAL OPERATING REVENUES	651,971	122,400	774,371
OPERATING EXPENSES			
Salaries and wages	1,033,960	116,695	1,150,655
Contract services	20,902	1,464	22,366
Materials and supplies	994,830	3,895	998,725
Other operating expenses.....	12,635	2,428	15,063
Depreciation expense	70,367	3,578	73,945
TOTAL OPERATING EXPENSES	2,132,694	128,060	2,260,754
OPERATING LOSS	(1,480,723)	(5,660)	(1,486,383)
NONOPERATING REVENUES (EXPENSES)			
State operating grants	270,386	0	270,386
Federal operating grants.....	1,111,582	0	1,111,582
Donated commodities	121,067	0	121,067
Interest revenue.....	5,621	0	5,621
Loss on disposal assets.....	(2,946)	0	(2,946)
Other.....	0	758	758
TOTAL NONOPERATING REVENUES (EXPENSES)	1,505,710	758	1,506,468
INCOME (LOSS) BEFORE TRANSFERS	24,987	(4,902)	20,085
TRANSFERS	(107,867)	9,226	(98,641)
CHANGE IN NET ASSETS	(82,880)	4,324	(78,556)
TOTAL NET ASSETS – BEGINNING OF YEAR	753,527	37,172	790,699
TOTAL NET ASSETS – END OF YEAR	\$ 670,647	\$ 41,496	\$ 712,143

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 666,517	\$ 123,521	\$ 790,038
Cash payments to employees for services	(789,420)	(116,695)	(906,115)
Cash payments for contract services	(20,902)	(1,464)	(22,366)
Cash payments to suppliers for goods and services.....	(867,114)	(3,954)	(871,068)
Cash payments for other operating expenses	(12,635)	(2,428)	(15,063)
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,023,554)</u>	<u>(1,020)</u>	<u>(1,024,574)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating grants received.....	1,137,428	0	1,137,428
Operating subsidies and transfers to other funds.....	(107,867)	9,984	(97,883)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,029,561</u>	<u>9,984</u>	<u>1,039,545</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets.....	(12,384)	0	(12,384)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(12,384)</u>	<u>0</u>	<u>(12,384)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments.....	5,621	0	5,621
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,621</u>	<u>0</u>	<u>5,621</u>
NET INCREASE (DECREASE) IN CASH	(756)	8,964	8,208
CASH – BEGINNING OF YEAR	240,354	27,987	268,341
CASH – END OF YEAR	<u><u>\$ 239,598</u></u>	<u><u>\$ 36,951</u></u>	<u><u>\$ 276,549</u></u>

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss.....	\$ (1,480,723)	\$ (5,660)	\$ (1,486,383)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	70,367	3,578	73,945
Commodities used.....	121,067	0	121,067
On behalf payments	244,540	0	244,540
Changes in assets and liabilities:			
Receivables	14,546	1,121	15,667
Inventory	7,004	0	7,004
Accounts payable.....	(355)	(59)	(414)
NET CASH USED IN OPERATING ACTIVITIES	\$ (1,023,554)	\$ (1,020)	\$ (1,024,574)

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

- ▶ The food service fund received \$121,067 of donated commodities from the federal government.
- ▶ The food service fund recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$244,540 from the state government.

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS		
ASSETS		
Cash	\$ 38	\$ 286,094
Investments	4,850,797	0
Accounts receivable.....	21,585	4,130
TOTAL ASSETS	\$ 4,872,420	\$ 290,224
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 21,627	\$ 4,503
Due to student groups	0	219,834
Due to employees — flex plan	0	65,887
TOTAL LIABILITIES	21,627	290,224
NET ASSETS		
Held in trust for scholarships.....	4,850,793	0
TOTAL NET ASSETS	4,850,793	0
TOTAL LIABILITIES AND NET ASSETS	\$ 4,872,420	\$ 290,224

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2005

	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS	
Contributions.....	\$ 2,419,814
Earnings on investments.....	162,971
Net increase in the fair value of investments	108,098
TOTAL ADDITIONS	<u>2,690,883</u>
DEDUCTIONS	
Scholarships	75,501
Distributions to donors	87,470
TOTAL DEDUCTIONS	<u>162,971</u>
CHANGE IN NET ASSETS	2,527,912
NET ASSETS – BEGINNING OF YEAR	<u>2,322,881</u>
NET ASSETS – END OF YEAR	<u><u>\$ 4,850,793</u></u>

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Ohio County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Ohio County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in the *Codification of Governmental Accounting and Financial Reporting Standards* as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Ohio County School District. In accordance with GASB Statement No. 39, the financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc., except for those funds administered as an activity in the Agency funds.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Ohio County School District Finance Corporation — The Ohio County Board of Education resolved to authorize the establishment of the Ohio County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Ohio County Board of Education also comprise the Corporation's Board of Directors.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

► **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds) and to provide financial resources for debt service requirements.

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky (FSPK) Fund* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan. The FSPK fund is a major fund.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

► **Proprietary Fund Types**

Enterprise Funds

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The *Elementary Day Care Fund* is used to account for after school and summer day care services offered to the general public.

The *Community Education Fund* is used to account for educational services offered to the general public.

The *School Auditorium Fund* is used to account for the funds donated in order to construct a school auditorium once adequate funds are received. The general public will have access to the auditorium.

The *High School Day Care Fund* is used to account for the day care services offered only to the District's students and staff of the District.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

► **Fiduciary Fund Types** (includes agency and private purpose trust funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. The student funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Private Purpose Trust Funds

The *Private Purpose Trust Fund* is used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Investments**

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings and improvements	25–50 years
Land improvements.....	20 years
Technology equipment.....	5 years
Vehicles.....	5–10 years
Audio-visual equipment.....	15 years
Food service equipment.....	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other.....	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than one year of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

● **Encumbrance Accounting**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

NOTE 2: CASH AND INVESTMENTS

● **Deposits**

At June 30, 2005, the carrying amounts of the District's deposits were \$9,383,579 and the bank balances were \$11,367,689, which was covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 2: CASH AND INVESTMENTS (Continued)

The carrying amounts of deposits in cash and cash investments are reflected in the financial statements as follows:

Governmental funds	\$ 8,820,898
Proprietary funds.....	276,549
Fiduciary funds.....	<u>286,132</u>
	<u>\$ 9,383,579</u>

► *Custodial Credit Risk Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2005, none of the District's deposits were exposed to custodial credit risk.

● **Investments**

The private purpose trust funds consist of the following investments at June 30, 2005:

Cash.....	\$ 20,595
Stocks	2,017
Debt securities	<u>4,828,185</u>
Total	<u>\$ 4,850,797</u>

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 2: CASH AND INVESTMENTS (Continued)

At June 30, 2005, debt securities' maturities and ratings are as follows:

Debt Security	Rating	Fair Value	Investment Maturities (in Years)			
			Less than 1	1-5	6-10	More than 10
U.S. Agencies	AAA	\$ 911,141	\$ 0	\$ 1,134	\$ 0	\$ 910,007
Kentucky Municipals	NR	209,077	0	0	0	209,077
Kentucky Municipals	AAA	1,505,784	0	0	0	1,505,784
Kentucky Municipals	AA3	1,936,049	0	0	155,805	1,780,244
Kentucky Municipals	AA2	25,838	0	0	0	25,838
Kentucky Municipals	A1	26,390	0	0	26,390	0
Corporate Bonds	AAA	10,877	0	0	0	10,877
Corporate Bonds	AA3	20,523	0	0	0	20,523
Corporate Bonds	A3	9,596	0	0	0	9,596
Corporate Bonds	A1	172,910	0	0	0	172,910
		\$ 4,828,185	\$ 0	\$ 1,134	\$ 182,195	\$ 4,644,856

► *Interest Rate Risk*

The trust agreements do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

► *Credit Risk*

Under the trust agreements, the District is authorized to invest in income producing assets which are insured by either the federal or any state government, or instrumentalities thereof, or in items known as "investment grade securities". The assets are required to be such items that will produce income free and clear of federal and Kentucky income taxes.

► *Concentration of Credit Risk*

The trust agreements do not place a limit on the amount the District may invest in any one issuer. More than 5 percent of the trust's investments are in Federal Home Loan Mortgage securities. These investments are 11% of the trust's total investments.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land.....	\$ 400,873	\$ 0	\$ 0	\$ 400,873
Construction in progress.....	662,939	184,257	847,196	0
Total Nondepreciable Historical Cost	1,063,812	184,257	847,196	400,873
Capital assets that are depreciated:				
Land improvements	1,757,873	130,152	0	1,888,025
Buildings and improvements.....	49,993,402	820,427	0	50,813,829
Technology equipment	4,416,169	422,115	1,610,983	3,227,301
Vehicles	3,256,825	410,783	204,766	3,462,842
General	1,576,872	24,903	87,555	1,514,220
Total Depreciable Historical Cost	61,001,141	1,808,380	1,903,304	60,906,217
Less accumulated depreciation for:				
Land improvements	555,545	78,865	0	634,410
Buildings and improvements.....	16,251,117	1,028,642	0	17,279,759
Technology equipment	3,971,473	230,564	1,597,213	2,604,824
Vehicles	1,768,133	279,195	204,766	1,842,562
General	1,044,331	68,845	52,806	1,060,370
Total Accumulated Depreciation	23,590,599	1,686,111	1,854,785	23,421,925
Total Depreciable Historical Cost, Net	37,410,542	122,269	48,519	37,484,292
Governmental Activities, Capital Assets, Net	\$ 38,474,354	\$ 306,526	\$ 895,715	\$ 37,885,165

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 3: CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Technology equipment	\$ 64,173	\$ 6,625	\$ 8,668	\$ 62,130
Vehicles	10,500	0	0	10,500
General	909,866	5,759	12,529	903,096
Total Depreciable Historical Cost	984,539	12,384	21,197	975,726
Less accumulated depreciation for:				
Technology equipment	57,507	7,678	11,343	53,842
Vehicles	10,500	0	0	10,500
General	566,021	66,267	6,908	625,380
Total Accumulated Depreciation	634,028	73,945	18,251	689,722
Business-Type Activities, Capital Assets, Net	\$ 350,511	\$ (61,561)	\$ 2,946	\$ 286,004

Depreciation expense was charged to governmental functions as follows:

Instruction.....	\$ 1,325,381
Instructional staff.....	2,296
District administration.....	41,373
School administration.....	23,226
Plant operations and maintenance	30,584
Student transportation.....	263,251
Total Depreciation Expense	\$ 1,686,111

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: GENERAL LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
September 1, 1993	\$ 1,410,000	4.60%—5.00%
January 1, 1994	3,800,000	4.50%—5.00%
June 1, 1994	4,430,000	4.60%—5.875%
June 1, 1996	5,705,000	5.40%—5.625%
January 1, 1999A	1,595,000	3.60%—4.60%
June 1, 1999B	2,800,000	3.50%—4.50%
June 1, 2000	4,205,000	5.70%
June 1, 2002	1,385,000	2.00%—4.80%
June 1, 2003A	2,460,000	1.00%—3.00%
June 1, 2003B	3,030,000	2.00%—3.30%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Ohio County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: GENERAL LONG-TERM OBLIGATIONS (Continued)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

Year	Ohio County School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2005–2006	\$ 605,837	\$ 576,233	\$ 196,073	\$ 479,767	\$ 1,857,910
2006–2007	577,177	601,893	174,733	501,107	1,854,910
2007–2008	546,476	631,158	151,996	523,842	1,853,472
2008–2009	513,349	668,151	135,990	539,849	1,857,339
2009–2010	481,348	700,471	120,309	555,529	1,857,657
2010–2011	447,580	731,167	103,007	572,833	1,854,587
2011–2012	411,865	770,288	84,127	591,712	1,857,992
2012–2013	382,363	798,437	64,277	611,563	1,856,640
2013–2014	350,610	830,596	42,792	578,404	1,802,402
2014–2015	318,450	793,029	22,810	96,971	1,231,260
2015–2016	291,401	813,809	18,581	101,191	1,224,982
2016–2017	263,054	874,564	14,066	95,436	1,247,120
2017–2018	213,622	925,984	9,676	99,016	1,248,298
2018–2019	161,336	978,669	5,121	111,331	1,256,457
2019–2020	106,078	1,035,000	0	0	1,141,078
2020–2021	47,520	485,000	0	0	532,520
2021–2022	24,240	505,000	0	0	529,240
	\$ 5,742,306	\$ 12,719,449	\$ 1,143,558	\$ 5,458,551	\$ 25,063,864

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: GENERAL LONG-TERM OBLIGATIONS (Continued)

Maturities of other debt are as follows for the fiscal year ending June 30:

For the Years Ending June 30,	
2006	\$ 49,167
2007	31,409
2008	21,605
2009	14,004
2010	7,193
Total	\$ 123,378

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Amounts Due Within One Year
Government activities:					
Bonds and notes payable:					
General obligation debt	\$ 19,186,000	\$ 0	\$ (1,008,000)	\$ 18,178,000	\$ 1,056,000
Less deferred issuance discounts and premiums	(57,743)	0	5,781	(51,962)	0
Less deferred amount on refundings	(428,582)	0	41,013	(387,569)	0
Total Bonds and Notes Payable	18,699,675	0	(961,206)	17,738,469	1,056,000
Other liabilities:					
Other	88,184	83,075	(47,881)	123,378	49,167
Compensated absences	942,720	146,196	(150,985)	937,931	324,107
Total Other Liabilities	1,030,904	229,271	(198,866)	1,061,309	373,274
Total Long-Term Liabilities	\$ 19,730,579	\$ 229,271	\$ (1,160,072)	\$ 18,799,778	\$ 1,429,274

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: PENSION PLANS

► *Plan Descriptions*

The Ohio County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

► *Funding Policy*

KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 8.48% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2005, 2004 and 2003 were \$370,383, \$318,851 and \$265,858, respectively, equal to the required contributions for each year. For the year ended June 30, 2005, the Commonwealth contributed \$1,611,817 to the KTRS for the benefit of the District's participating employees. The District's contribution to the KTRS for the year ending June 30, 2005 was \$224,234, which represents those employees covered by federal programs.

The amount recognized for revenues and expenditures/expenses for on-behalf payments relating to fringe benefits, retirement and insurance benefits for the year ended June 30, 2005 was \$4,418,238 for governmental funds and \$244,540 for proprietary funds.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 6: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 7: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 8: RISK MANAGEMENT (Continued)

Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Fund	Amount
General.....	\$ 427,316
Debt Service	1,436
School Food Service	82,880
School-Wide Day Care – Elementary.....	1,075

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 10: FUND TRANSFERS

Fund transfers for the year ended June 30, 2005 consist of the following:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Debt Service	Debt Service	\$ 78,229
General	Special Revenue	Matching	168,988
General	School-Wide Day Care – Elementary	Operating	9,226
SEEK	Debt Service	Debt Service	359,500
FSPK	Debt Service	Debt Service	742,151
Food Service	General Fund	Indirect Costs	107,867

NOTE 11: PRIOR PERIOD ADJUSTMENT

In the financial statements for the year ended June 30, 2004, an error was made in accounting for deferred revenue in the special revenue fund. This error has been corrected and has had the following effect on beginning fund balance and beginning net assets:

	<u>Special Revenue Fund</u>	<u>Governmental Activities</u>
Beginning fund balance/net assets, as previously reported	\$ 271,798	\$ 27,131,732
Adjustment	162,566	162,566
Beginning Fund Balance/Net Assets, as Restated	\$ 434,364	\$ 27,294,298

Required Supplemental Information

OHIO COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2005

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 3,606,000	\$ 3,832,153	\$ 4,291,586	\$ 459,433
State programs.....	14,480,245	15,132,501	15,524,888	392,387
TOTAL REVENUES	18,086,245	18,964,654	19,816,474	851,820
EXPENDITURES				
Current:				
Instruction	10,318,824	11,246,288	10,929,380	316,908
Support services:				
Student	901,179	888,672	859,049	29,623
Instructional staff.....	845,722	815,665	714,312	101,353
District administration.....	2,311,958	2,229,926	587,291	1,642,635
School administration.....	1,239,842	1,218,864	1,100,995	117,869
Business	569,917	886,592	825,705	60,887
Plant operations and maintenance	3,977,000	2,644,642	2,331,689	312,953
Student transportation.....	1,509,371	1,927,359	1,957,369	(30,010)
Central office.....	272,674	0	0	0
Other.....	0	0	1,988	(1,988)
Site acquisition	50,000	101,000	57,600	43,400
Site improvement.....	889,900	904,908	26,476	878,432
New building construction.....	335,000	335,000	355,586	(20,586)
Building renovations	237,963	1,012,868	347,774	665,094
TOTAL EXPENDITURES	23,459,350	24,211,784	20,095,214	4,116,570

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(5,373,105)</u>	<u>(5,247,130)</u>	<u>(278,740)</u>	<u>4,968,390</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers.....	<u>(199,001)</u>	<u>(125,877)</u>	<u>(148,576)</u>	<u>(22,699)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(199,001)</u>	<u>(125,877)</u>	<u>(148,576)</u>	<u>(22,699)</u>
NET CHANGE IN FUND BALANCE.....	<u>(5,572,106)</u>	<u>(5,373,007)</u>	<u>(427,316)</u>	<u>4,945,691</u>
FUND BALANCE – BEGINNING OF YEAR.....	<u>5,572,106</u>	<u>5,373,007</u>	<u>7,066,912</u>	<u>1,693,905</u>
FUND BALANCE – END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,639,596</u>	<u>\$ 6,639,596</u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

Actual amounts (budgetary basis).....	<u>\$ 19,816,474</u>
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>4,418,238</u>

Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds

\$ 24,234,712

Outflows/expenditures:

Actual amounts (budgetary basis).....	<u>\$ 20,095,214</u>
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>4,418,238</u>

Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds

\$ 24,513,452

OHIO COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL REVENUE FUND
For the Year Ended June 30, 2005

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources.....	\$ 6,810	\$ 6,810	\$ 250,419	\$ 243,609
State programs	1,728,252	1,728,252	1,870,836	142,584
Federal programs	3,062,570	3,062,570	2,733,381	(329,189)
TOTAL REVENUES	4,797,632	4,797,632	4,854,636	57,004
EXPENDITURES				
Current:				
Instruction	4,415,923	4,415,923	3,994,586	421,337
Support services:				
Student.....	133,985	133,985	206,102	(72,117)
Instructional staff	285,465	285,465	280,308	5,157
District administration	2,757	2,757	529	2,228
School administration	20,805	20,805	3,050	17,755
Business	634	634	63,179	(62,545)
Plant operations and maintenance.....	16,507	16,507	27,037	(10,530)
Student transportation.....	(39,998)	(39,998)	50,058	(90,056)
Other	467,698	467,698	372,709	94,989
TOTAL EXPENDITURES	5,303,776	5,303,776	4,997,558	306,218
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(506,144)	(506,144)	(142,922)	363,222

OTHER FINANCING SOURCES (USES)

Operating transfers.....	0	0	168,988	168,988
TOTAL OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>0</u>	<u>168,988</u>	<u>168,988</u>
NET CHANGE IN FUND BALANCE	<u>(506,144)</u>	<u>(506,144)</u>	<u>26,066</u>	<u>532,210</u>
FUND BALANCE – BEGINNING OF YEAR	271,798	271,798	271,798	0
PRIOR PERIOD ADJUSTMENT	<u>0</u>	<u>0</u>	<u>162,566</u>	<u>162,566</u>
FUND BALANCE – BEGINNING OF YEAR – RESTATED	<u>271,798</u>	<u>271,798</u>	<u>434,364</u>	<u>162,566</u>
FUND BALANCE – END OF YEAR	<u><u>\$ (234,346)</u></u>	<u><u>\$ (234,346)</u></u>	<u><u>\$ 460,430</u></u>	<u><u>\$ 694,776</u></u>

Supplemental Information

OHIO COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	SEEK FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS				
Cash.....	\$ 0	\$ 1,572	\$ 3,188	\$ 4,760
TOTAL ASSETS	\$ 0	\$ 1,572	\$ 3,188	\$ 4,760
FUND BALANCES				
FUND BALANCES				
Reserved for:				
Debt service.....	\$ 0	\$ 0	\$ 3,188	\$ 3,188
Construction.....	0	1,572	0	1,572
TOTAL FUND BALANCES	\$ 0	\$ 1,572	\$ 3,188	\$ 4,760

OHIO COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	SEEK FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Earnings on investments	\$ 0	\$ 23	\$ 644	\$ 667
Intergovernmental — state	359,500	0	675,813	1,035,313
TOTAL REVENUES	<u>359,500</u>	<u>23</u>	<u>676,457</u>	<u>1,035,980</u>
EXPENDITURES				
Debt service:				
Principal	0	0	1,008,000	1,008,000
Interest	0	0	849,773	849,773
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>1,857,773</u>	<u>1,857,773</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>359,500</u>	<u>23</u>	<u>(1,181,316)</u>	<u>(821,793)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers	(359,500)	0	1,179,880	820,380
TOTAL OTHER FINANCING SOURCES (USES)	<u>(359,500)</u>	<u>0</u>	<u>1,179,880</u>	<u>820,380</u>
NET CHANGE IN FUND BALANCES	<u>0</u>	<u>23</u>	<u>(1,436)</u>	<u>(1,413)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>0</u>	<u>1,549</u>	<u>4,624</u>	<u>6,173</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 1,572</u></u>	<u><u>\$ 3,188</u></u>	<u><u>\$ 4,760</u></u>

OHIO COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
June 30, 2005

	HIGH SCHOOL DAY CARE	COMMUNITY EDUCATION	ELEMENTARY DAY CARE	SCHOOL AUDITORIUM	TOTAL OTHER ENTERPRISE FUNDS
ASSETS					
CURRENT ASSETS					
Cash.....	\$ 32,172	\$ 1,222	\$ 55	\$ 3,502	\$ 36,951
TOTAL CURRENT ASSETS	32,172	1,222	55	3,502	36,951
NONCURRENT ASSETS					
Fixed assets — net	4,600	0	0	0	4,600
TOTAL ASSETS	\$ 36,772	\$ 1,222	\$ 55	\$ 3,502	\$ 41,551

**LIABILITIES AND
NET ASSETS**

CURRENT LIABILITIES

Accounts payable.....	\$	0	\$	0	\$	55	\$	0	\$	55
TOTAL CURRENT LIABILITIES		<u>0</u>		<u>0</u>		<u>55</u>		<u>0</u>		<u>55</u>

NET ASSETS

Invested in capital assets	4,600	0	0	0	4,600
Unrestricted.....	32,172	1,222	0	3,502	36,896
TOTAL NET ASSETS	<u>36,772</u>	<u>1,222</u>	<u>0</u>	<u>3,502</u>	<u>41,496</u>

**TOTAL LIABILITIES AND
NET ASSETS**

\$	36,772	\$	1,222	\$	55	\$	3,502	\$	41,551
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OHIO COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	HIGH SCHOOL DAY CARE	COMMUNITY EDUCATION	ELEMENTARY DAY CARE	SCHOOL AUDITORIUM	TOTAL OTHER ENTERPRISE FUNDS
OPERATING REVENUES					
Tuition and fees	\$ 42,017	\$ 2,313	\$ 78,070	\$ 0	\$ 122,400
TOTAL OPERATING REVENUES	42,017	2,313	78,070	0	122,400
OPERATING EXPENSES					
Salaries and wages.....	31,298	0	85,397	0	116,695
Contract services	0	1,464	0	0	1,464
Materials and supplies	2,566	0	1,329	0	3,895
Other operating expenses	25	0	2,403	0	2,428
Depreciation expense	3,578	0	0	0	3,578
TOTAL OPERATING EXPENSES	37,467	1,464	89,129	0	128,060
NONOPERATING REVENUES					
Other	0	0	758	0	758
TOTAL NONOPERATING REVENUES	0	0	758	0	758
OPERATING INCOME (LOSS) BEFORE TRANSFERS	4,550	849	(10,301)	0	(4,902)
TRANSFERS	0	0	9,226	0	9,226
CHANGE IN NET ASSETS	4,550	849	(1,075)	0	4,324
TOTAL NET ASSETS, BEGINNING OF YEAR	32,222	373	1,075	3,502	37,172
TOTAL NET ASSETS, END OF YEAR	\$ 36,772	\$ 1,222	\$ 0	\$ 3,502	\$ 41,496

OHIO COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
AGENCY FUNDS
June 30, 2005

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Ohio County High School.....	\$ 107,403	\$ 3,848	\$ 3,549	\$ 107,702
Ohio County Middle School	17,360	0	954	16,406
Horse Branch Elementary.....	18,320	282	0	18,602
Southern Elementary	13,124	0	0	13,124
Wayland Elementary.....	25,781	0	0	25,781
Western Elementary	10,051	0	0	10,051
Beaver Dam Elementary.....	20,686	0	0	20,686
Fordsville Elementary	7,482	0	0	7,482
TOTAL	\$ 220,207	\$ 4,130	\$ 4,503	\$ 219,834

**OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
OHIO COUNTY HIGH SCHOOL
June 30, 2005**

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Baseball Field	\$ 40	\$ 0	\$ 0	\$ 40
Girls Booster Account	6	351	0	357
Boys Booster Account.....	639	0	0	639
Soccer Boosters.....	213	0	0	213
Softball Boosters.....	3,289	0	0	3,289
Tennis Boosters.....	902	0	0	902
FB Quarterback Club	11,967	2,802	1,039	13,730
Volleyball Boosters	14	0	0	14
Track Boosters.....	6	0	0	6
Wrestling Team.....	1,305	0	0	1,305
Golf Boosters	101	0	0	101
Art Club	92	0	0	92
Band Boosters	68	0	0	68
Chicken Sales	35	0	0	35
Drama Club.....	949	0	0	949
FCF.....	756	0	0	756
FFA.....	511	0	0	511
FCCLA	609	0	0	609
German Club.....	294	0	0	294
NHS	547	0	0	547
Pep Club	60	0	0	60
Spanish Club.....	207	0	0	207
Student Council.....	1,276	0	0	1,276
STLP	109	0	0	109
Team Esteem.....	449	0	0	449
Concessions	4,956	0	0	4,956
Student Concessions	6,849	0	0	6,849
Teacher Concessions	12,688	0	0	12,688
Family Consumer Science	561	0	0	561
Horticulture.....	6,775	0	0	6,775
Eagle Excellence	597	0	0	597

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Academic Team	113	0	0	113
Screaming Eagles	232	0	0	232
Vo Ag Department	6,745	0	0	6,745
Hot Air Co.	38	0	0	38
Phyllis Vincent.....	452	0	0	452
General Fund	28,753	695	0	29,448
Cheerleading Fund	3,986	0	2,510	1,476
Flower Fund	13	0	0	13
Substitute Teacher	2,397	0	0	2,397
Library	134	0	0	134
FEA.....	1,305	0	0	1,305
Chorus	223	0	0	223
Prom	3,601	0	0	3,601
We the People	688	0	0	688
Frankfort Trip	81	0	0	81
Postermaker.....	96	0	0	96
Dance Team	460	0	0	460
Girls in Science	103	0	0	103
Project Graduation	1,113	0	0	1,113
	\$ 107,403	\$ 3,848	\$ 3,549	\$ 107,702

OHIO COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	57604 05 Z / 57605 05 Z	\$ 351,443
National School Lunch Program.....	10.555	57504 02 Z / 57505 02 Z	760,139
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.555	57504 02 Z / 57505 02 Z	121,067
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,232,649
U.S. DEPARTMENT OF EDUCATION			
Passed-Through State Department of Education:			
Title I — 2004	84.010	35104 01 Z	70,012
Title I — 2005	84.010	35105 01 Z	896,997
Title I — Migrant Education — 2004	84.011	35204 02 Z	14,959
Title I — Migrant Education — 2005	84.011	35205 02 Z	66,052
Title I — Migrant Education — McLean County 2005	84.011	35205 02 Z	8,243
Title I — Neglected & Delinquent Children — 2004	84.013	35204 02 Z	1,857
Title I — Neglected & Delinquent Children — 2005	84.013	35205 02 Z	8,088
Vocational Education — Basic — 2004	84.048	46204 32 Z	1,408
Vocational Education — Basic — 2005	84.048	46205 32 Z	13,519
Title V — Innovative Strategies — 2004	84.298	53304 02 Z	12,864
Title V — Innovative Strategies — 2005	84.298	53305 02 Z	109,920
Title II — Part A, Tch. & Prin. Trng. — 2004	84.367A	71004 02 Z	36,154
Title II — Part A, Tch. & Prin. Trng. — 2005	84.367A	71005 02 Z	157,593
Title II — Part D, Educational Tech. — 2004	84.318X	73604 02 Z	11,425
IDEA-B Special Education — 2003	84.027	58103 02 Z	(8,140)
IDEA-B Special Education — 2004	84.027	58104 02 Z	38,137
IDEA-B Special Education — 2005	84.027	58105 02 Z	780,278
IDEA Basic, Silver Grant — 2004.....	84.027S	58104 02 Z	12,710
IDEA Basic, Silver Grant — 2005.....	84.027S	58105 02 Z	7,406
IDEA-B — Preschool — 2004	84.173	58704 02 Z	16,646
IDEA-B — Preschool — 2005	84.173	58705 02 Z	62,988
Smaller Learning Communities Grant — 2004.....	84.215L	—	58,281
Smaller Learning Communities Grant — 2005.....	84.215L	—	87,601
Title III — LEP/Immigrant Allocation — 2004	84.365A	52004 02 Z	3,244
Title III — LEP/Immigrant Allocation — 2005	84.365A	52005 02 Z	2,196

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH NUMBER	FEDERAL EXPENDITURES
Title VI — Part B Rural & Low Income — 2004.....	84.358B	35004 02 Z	41,465
Reading Excellence Grant.....	84.338	—	942
Title IV — Safe & Drug Free Schools— 2004	84.186A	59004 02 Z	4,080
Title IV — Safe & Drug Free Schools— 2005	84.186A	59005 02 Z	23,118
21 st Century Community Learning Ct.	84.287	—	68,746
Passed-Through State Workforce Cabinet:			
Tech Prep Grant — 2005	84.243A	—	10,438
TOTAL U.S. DEPARTMENT OF EDUCATION			2,619,227
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed-Through State Workforce Cabinet:			
Service Learning Grant — 2004.....	94.004	74304 02 Z	1,924
Service Learning Grant — 2005.....	94.004	74305 02 Z	3,000
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			4,924
U.S. DEPARTMENT OF JUSTICE			
Passed-Through Green River Health Department:			
Drug Free Community Support — 2004.....	16.279	—	18,408
Drug Free Community Support — 2005.....	16.279	—	61,842
TOTAL U.S. DEPARTMENT OF JUSTICE			80,250
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through Green River Health Department:			
Abstinence Education — 2005	93.235	—	28,980
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			28,980
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,966,030

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Ohio County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

OHIO COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2005

● **04-1 Grant Compliance**

During our audit of grant programs, we noted that the District did not maintain documentation of employee time and effort for those employees paid from federal programs. Per OMB Circular A-87, Attachment B, an employee whose compensation is funded solely from a single federal program must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the federal program. An employee paid in part from a single federal program, and in part with funds from other revenue sources, must maintain time and effort records that document the portion of time and effort dedicated to the single federal program, and each program or other cost objective supported by other revenue sources. The employee or the supervisory official having first-hand knowledge of the work performed by the employee must sign these certifications. There are no questioned costs resulting from this noncompliance.

Management Response: The District will implement a procedure to maintain time and effort records that document the portion of time and effort dedicated to the single federal program, and each program or other cost objective supported by other revenue sources. The employee or the supervisory official having first-hand knowledge of the work performed by the employee will sign these certifications.

Current Status: The District did improve their procedures by maintaining annual time and effort records for individuals paid out of a federal program. However, in order to comply with OMB Circular A-87, Attachment B, we recommend that the District obtain semi-annual time and effort certifications for individuals paid solely from a single federal program and monthly certifications for individuals paid from multiple sources/programs. There are no questioned costs resulting from this noncompliance.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District
Hartford, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of **Ohio County School District** as of and for the year ended June 30, 2005, which collectively comprise **Ohio County School District's** basic financial statements and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to

927 College Street ♦ PO Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 ♦ Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 ♦ Fax: (270) 726-3155
1-888-240-7151

a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 20, 2005.

● **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 05-2.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract—State Audit Requirements*.

This report is intended solely for the information and use of the members of the **Ohio County Board of Education**, Kentucky State Committee for School Districts, management of the **Ohio County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 20, 2005



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District
Hartford, Kentucky

● **Compliance**

We have audited the compliance of **Ohio County School District** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing

927 College Street ♦ PO Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 ♦ Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 ♦ Fax: (270) 726-3155
1-888-240-7151

such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying schedule of findings and questioned costs as item 05-1.

- **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the **Ohio County Board of Education**, Kentucky State Committee for School Districts,

Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District

management of the **Ohio County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 20, 2005

OHIO COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☒ Yes ☐ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

OHIO COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2005

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555	Child Nutrition Cluster
84.298	Title V A
84.367	Title II A

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

SECTION II — FINANCIAL STATEMENT FINDINGS

● 05-2 Other Matters

The 2003 revised *Governmental Auditing Standards* requires auditors to address a new term "Abuse". Abuse is distinct from fraud, illegal acts or violations of provisions of contracts or grant agreements. When abuse occurs, no law, regulation or provision of a contract or grant agreement is violated. Rather, abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Therefore, the determination is subjective in nature.

In the fiscal year ended June 30, 2005, the District was planning a combined building project relating to Horse Branch Elementary School and Beaver Dam Elementary School. An approved BG-1 form was obtained from appropriate state officials. However, the District's general fund expended approximately \$476,000 in the current year on this project. The District subsequently decided that the project was not feasible at this time. Therefore, the \$476,000 was expended with no capital asset being obtained for the District. Based on these items, it appears certain decisions

OHIO COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2005

were made for this project that a prudent person would consider as unreasonable business practices. We suggest the District review their procedures over building projects to ensure significant amounts of cash are not expended on projects that never materialize into building projects.

Management Response: The Horse Branch and Beaver Dam building project was started during March 2004 with an approved tentative budget of \$6,879,000. Over the next 18 months, the District persuaded state officials to approve the Design Development as well as the Completed Plans and Specifications. Once approved the District had already incurred approximately \$476,000 on this project. During this same time, several unforeseen natural events occurred that resulted in increases to construction costs. The District bid the project on September 13, 2005 and October 17, 2005 which resulted in bids over the final budget by approximately \$2.4 million and \$2.1 million, respectively. The District subsequently decided that the project was not feasible and reconvened the Local Planning Committee to prioritize the facility needs of the District. In the future the District will review its procedures over building projects to ensure significant amounts of cash are not expended on projects that never materialize into building projects.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- **05-1 US Department of Agriculture**
School Breakfast, Lunch and Summer and Food Distribution
Programs
CFDA No. 10.553 and 10.555
Grant No. 575-04-02 / 575-05-02, 576-04-05 / 576-05-05
For the Year Ended June 30, 2005

US Department of Education
Title V — CFDA No. 84.298
Grant No. 533-04-02 and 533-05-02
For the Year Ended June 30, 2005

OHIO COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2005

**US Department of Education
Title II — CFDA No. 84.367
Grant No. 710-04-02 and 710-05-02
For the Year Ended June 30, 2005**

Condition and Criteria: The District did not maintain documentation of time and effort for personnel in accordance with OMB Circular A-87, Attachment B.

Effect: At a minimum, semi-annual certifications were not obtained from employees who work solely on one grant program and time records for personnel with time spent on multiple grants were not maintained in accordance with OMB Circular A-87, Attachment B. However, other supportive documentation was maintained to provide evidence cost was appropriately spent. No questioned cost resulted from this finding.

Cause: The District payroll personnel were unfamiliar with compliance requirements under OMB Circular A-87, Attachment B, requiring certification of time and effort of personnel who work solely on one grant program and requirements for personnel charged to multiple grants.

Auditor Recommendation: Employees paid in whole from a single federal program must provide certification of time and effort that documents the portion of time and effort spent to the single federal program. In addition, employees paid in part from a single federal program must maintain time and effort records that document the portion of time and effort spent to a specific single program.

Management Response: The District will implement a procedure to maintain time and effort records that document the portion of time and effort dedicated to the single federal program, and each program or other cost objective supported by other revenue sources. The employee or the supervisory official having first-hand knowledge of the work performed by the employee will sign these certifications.